



# Memorandum

**TO:** HONORABLE MAYOR  
AND CITY COUNCIL

**FROM:** Leslye Corsiglia

**SUBJECT:** SEE BELOW

**DATE:** August 16, 2013

Approved

Date

8/16/13

**COUNCIL DISTRICT: 8**

**SUBJECT: APPROVAL OF A SUBORDINATION AGREEMENT WITH THE BOYS  
AND GIRLS CLUB OF SILICON VALLEY TO SUBORDINATE THE  
CITY'S \$750,000 LIEN ON THE PROPERTY AT 2195 CUNNINGHAM  
AVENUE**

## REASON FOR ADDENDUM

The Boys and Girls Clubs of Silicon Valley (BGCSV) needs this action expedited so that they can close a loan with Focus Bank by August 31, 2013. The bank needs one week to process the loan. Without the loan, BGCSV will not be able to meet its financial obligations, including payroll.

## RECOMMENDATION

- (a) Council by motion waive the 10-day noticing requirement for the following item, approve its placement on the agenda, and consider the following recommendation.
- (b) Approve a Subordination Agreement to subordinate the City's existing Deed of Trust, as amended by a First Amendment to the Deed of Trust, on real property located at 2195 Cunningham Avenue, to a \$500,000 loan from Focus Bank.

## OUTCOME

The approval of this action will allow BGCSV to obtain a \$500,000 loan, which it needs to cover operational costs.

## **BACKGROUND**

In 2003, the BGCSV received a Community Development Block Grant (CDBG) grant for \$750,000 to renovate a soccer field at its Smythe Clubhouse. In exchange for the funds, the City placed a use restriction (via a lien) on the land requiring that the land be used for eligible CDBG activities. At the time, the lien covered two parcels – 2195 Cunningham (Smythe Clubhouse) and 2293 Cunningham (soccer field). In 2006, the BGCSV sold the soccer field to the City and the City agreed to accept the CDBG obligation. The BGCSV agreed to provide the City an easement over a portion of the parcel to ensure pedestrian/vehicular/bike access to the soccer field. The Housing Department recently discovered that, although it should have been removed at the time of the 2006 transfer, a deed of trust securing the \$750,000 grant and use restriction remains as a lien against the Smythe Clubhouse property. We are now taking the necessary actions to remove the lien.

In recent years, the BGCSV has had difficulties raising sufficient funds to cover its administrative costs, and has taken a number of actions to remain operational. In 2012, the BGCSV received an offer of \$305,000 from Valentine Capital, LLC, to allow cell towers to be located on the Smythe Clubhouse. This funding was to be paid in three annual installments of \$101,667 beginning in June of 2012. The final installment will be received in June of 2014. Additionally, BGCSV worked with Focus Bank to obtain a \$150,000 Line of Credit which was used to support its operations and which has since been repaid.

BGCSV is now seeking a \$500,000 loan from Focus Bank, and because the lien is still in place, is conditioning the loan on City subordination. Loan proceeds will be used to meet BGCSV's financial obligations for the next two months.

## **ANALYSIS**

During the months of July through August, BGCSV operates Clubhouses both on school sites and in community centers, and because neither program is fully funded, there is an operational deficit. BGCSV must raise additional dollars to keep the Clubhouses open during these months so that they can provide programming for underserved youth. In the past, when there have been shortfalls between the amount raised and the amount required to keep the Clubhouses open year round, BGCSV has been able to access reserves. However due to the economic downturn and reduced giving, these reserves have been exhausted.

BGCSV is seeking the loan from Focus Bank in order to address not only its immediate cash flow needs but also to create a long-term reserve so that they can better manage their cash flow. BGCSV is in a cash flow crisis and needs access to the funds to meet their financial obligations. The Bank needs one week to complete their process in order to fund the loan by August 31, 2013.

The loan will be fully secured. The loan is supported by an appraisal from Cushman & Wakefield from June 25, 2013, which concludes that the value of the property is \$2,200,000.

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There is sufficient equity in the property to cover the new loan. There are no other liens recorded against the property.

### **EVALUATION AND FOLLOW-UP**

The Housing Department will work with the City Attorney's Office to ensure that all follow-up actions are taken to remove the lien. In addition, City staff will work with BGCSV in the coming months to provide technical assistance to ensure that the organization is in good fiscal standing and will recommend that BGCSV meet with the Center for Excellence in Non Profits, which has as its mission fostering vibrant nonprofit organizations throughout Silicon Valley.

### **POLICY ALTERNATIVES**

**Alternative #:** *Do not approve the Subordination Agreement.*

**Pros:** None

**Cons:** BGCSV will not obtain needed funds to address its cash flow issues and will be unable to pay staff. It is likely that BGCSV will not survive, which would result in a loss of services to underserved youth.

**Reason for not recommending:** Without the cash infusion, BGCSV will not be able to meet payroll expenses. BGCSV performs an important service

### **PUBLIC OUTREACH/INTEREST**

- ☐ **Criterion 1:** Requires Council action on the use of public funds equal to \$1 million or greater. **(Required: Website Posting)**
- ☐ **Criterion 2:** Adoption of a new or revised policy that may have implications for public health, safety, quality of life, or financial/economic vitality of the City. **(Required: E-mail and Website Posting)**
- ☐ **Criterion 3:** Consideration of proposed changes to service delivery, programs, staffing that may have impacts to community services and have been identified by staff, Council or a Community group that requires special outreach. **(Required: E-mail, Website Posting, Community Meetings, Notice in appropriate newspapers)**

Although this item does not meet any of the above criteria, this memorandum will be posted on the City's website for the August 20, 2013 meeting.

### **COORDINATION**

This memo was coordinated with the Office of the City Attorney.

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**CEQA**

Not A Project, File No. PP10-066, Agreements for activities involving no physical changes to the environment.

/s/

LESLYE CORSIGLIA

Director of Housing

For questions please contact Jacky Morales-Ferrand, Assistant Director, at (408) 535-3855.